

# CENTRAL COUNTERPARTY GENERAL CONDITIONS

Trades on  
Fixed Income Financial Instruments

Fixed Income Segment

**BME CLEARING**

Date: 23 January 2025  
Effective from: 10 March 2025

## VERSIONS

Date	Version	Entry into force	Modifications	Sections
23/01/2025	3.0	10/03/2025	Adaptation Due to Changes Implemented by Law 6/2023, of March 17, on Securities Markets and Investment Services	6, 9 and 12
20/11/2023	2.0	05/12/2023	Adaptation to CCP RRR standards	17 and 18
14/07/2023	1.0	07/09/2023	<ul style="list-style-type: none"> <li>The Settlement Bank is incorporated for the provision of cash collateral</li> <li>New Financial Instruments admitted: Belgium Debt and Supranational Debt issued by the European Commission</li> </ul>	<ul style="list-style-type: none"> <li>3 and 16</li> <li>4</li> </ul>

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## 1. INTRODUCTION

These General Conditions implement the Rule Book of BME CLEARING, S.A.U. (hereinafter, BME CLEARING or CCP), forming a part of it, in accordance with article 1.1. and they set the terms and conditions applicable to the services and functions performed by BME CLEARING with respect to the Financial Instruments and Trades forming part of the Fixed Income Segment and constituting the scope of its activity as a Central Counterparty.

These General Conditions will enter into force, replacing the existing ones, on the date to be determined which will be published in a Notice once the pertinent authorisation is received.

As a result of the Registration of Fixed Income Segment Trades in BME CLEARING's Trades Register, the parties acquire the rights and obligations set out in the Rule Book and in these General Conditions.

## 2. REGULATIONS APPLICABLE TO THE FIXED INCOME SEGMENT

In its role as Central Counterparty for Trades in the Fixed Income Segment, BME CLEARING shall be subject to the provisions of the following chapters of the BME CLEARING Rule Book, with the particularities contained in these General Conditions:

General Provisions.- The General Provisions of the Rule Book, articles 1 and 2, shall be applicable with the particularities established in these General Conditions. Additionally, the definitions established in these General Conditions shall be applicable.

Participants.- The Member regime detailed in Chapter 2 of BME CLEARING's Rule Book shall apply, articles 3 to 9, both inclusive, with the following special features in relation to the activity of Members in this CCP Segment, provided for in accordance with articles 3.4, 18.2.I) and 18.2.J) of the Rule Book.

Minimum content of the contracts between the Members and BME CLEARING and among members or with participants entities in other infrastructures is stipulated under article 10.2.L) of the Rule Book.

In accordance with articles 4.1 and 18.2.J) of the Rule Book, an additional type of Member is hereby established, the Special Individual Clearing Members. These General Conditions regulate the special features regarding the requirements, powers, rights, and obligations of such members.

These General Conditions will set forth the solvency requirements of Members in accordance with articles 3.4, 4.2, 4.3 and 6.4.c) of BME CLEARING's Rule Book.

The regulations for Clients detailed in Chapter 4 of BME CLEARING's Rule Book shall also apply, specifically articles 15 to 17 both inclusive.

These General Conditions establish special features applied to the legal contractual relationship between the Non-Clearing Members and their Clients holders of ISA Agency Accounts in accordance with Articles 7.3.p) and 16.3 of the Rule Book.

Registration.–The Registration regime envisaged in Chapter 6 of BME CLEARING's Rule Book will apply, including the rules established in articles 19 to 23, both inclusive, (exclusively with respect to the Central Register Accounts upon BME CLEARING's responsibility), with the special features set forth in these General Terms and Conditions, pursuant to article 18.2.E) of the Rule Book. In the Fixed Income Segment of the CCP, only the rules of the Rule Book relating to Accounts in the Central Register, managed by the CCP, shall apply.

According to articles 23.1 and 18.2.K) of the Rule Book, these General Conditions provide for additional types of Accounts, since the Register of Positions and the Calculation of Margins are performed in gross or in net, and due to specialisms relating to the Account holder.

Finally, and pursuant to articles 21.5 and 22.3 of the Rule Book, certain caveats and particularities are established in relation to the management of the Accounts.

Central Counterparty.– The Central Counterparty's function and the regime whereby participants post Margins will be regulated by Chapter 7 of the Rule Book, comprising articles 26 to 33 thereof, both inclusive, with the special features set forth in these General Conditions, on the calculation and request for Margins, pursuant to article 18.2-F) and 31 of the Rule Book.

Clearing and Settlement.– Clearing and Settlement functions for Financial Instrument Trades in this CCP Segment will be regulated in Chapter 8 of the aforementioned Rule Book, specifically by articles 34 to 37 thereof, both inclusive, as supplemented by these General Conditions, pursuant to article 18.2.C) of the Rule Book.

Default.– Provisions in the Chapter 9 of the Rule Book shall apply. The special features set forth in these General Conditions, in accordance with the article 45.8.C) of the Rule Book, in respect with the Contributions to the Continuity of the Service and Voluntary Contributions, shall also apply.

### 3. DEFINITIONS

The terms used in the regulations relating to the CCP's Fixed Income Segment have the same meaning as given in the Rule Book, unless a different scope or meaning is expressly specified in any of the cases in which they are used. The following terms will also apply:

**Aggregation:** Calculation of the cash and Securities balance arising from the sum of the cash payment and Securities delivery obligations relating to all buy Trades and, separately,

to all sell Trades, registered in a single Account, in the terms set forth in these General Conditions.

**Allocation:** Designation of the CCP Account in which a Trade must be booked. Such allocation may be made via the execution of the Trade in the related Trading Platform, or via the Daily Account at the CCP of the corresponding Member.

**Buyer:** Clearing Member in charge of the buy Trades or, where appropriate, the Settlement Participant responsible, for the account of the Clearing Member, for buy Position Settlements in the Settlement System.

**Settlement Bank:** for the purposes of the Fixed Income Segment, the entity which, in compliance with the eligibility criteria established by BME CLEARING by means of a Circular, provides the accounts for the deposit of the cash Margins.

**Settlement Bank Accounts:** For the purposes of the Fixed Income Segment, an account opened by BME CLEARING in a Settlement Bank for the posting of the cash Margins, which may be broken down into segregated sub-accounts, each of them being assigned to each Clearing Member that so requests.

**Settlement Accounts:** Accounts of the corresponding Settlement System through which the Settlement of Positions registered in the Accounts of the CCP, held by the Clearing Member in its capacity as Participating Entity or by the Participating Entity with which the Clearing Member has entered into the corresponding Agreement, is carried out, in which the corresponding credits and debits of Securities and cash corresponding to the Settlement Instructions are made.

In the case of Cross-Border Settlement, these accounts will be the ones located in the linked CSD, owned by the Clearing Member, in which the credits and debits of Securities and cash are made according to the Settlement Instruction.

**Linked CSD:** Central Securities Depository of a jurisdiction other than the Spanish one, mentioned in the corresponding Circular, with which the Settlement System has a link and which has been operatively enabled by the Settlement System and BME CLEARING for Cross-Border Settlement, and where the Clearing Members have opened the accounts in which the corresponding credits and debits of Securities and cash are made according to the Settlement Instructions.

**Settlement Participant:** Entity which participates or has an account in a Settlement System: The entity charged with Position Settlement for the account of the Clearing Member.

**Corporate Action:** Action commenced by or in relation with the issuer of Securities affecting the Securities issued.

**Mandatory Distribution with no Options:** Type of Corporate Action in which the issuer distributes securities or cash to the holders of the securities forming the scope of the Corporate Action.

**Mandatory Transformation Corporate Action:** Type of Corporate Action in which the issuer conducts some sort of procedure other than distribution involving the Securities forming the scope of the Corporate Action.

**Record Date:** The date at which the positions will be recorded to calculate the Corporate Action.

**Payment date:** The date on which the Corporate Action will be settled. The Payment Date will be subsequent to the Record Date.

**Settlement Date:** Date on which the Position Settlement becomes effective, as set forth in these General Conditions.

**Intended Settlement Date (ISD):** Date on which the Position Settlement should become effective, pursuant to the rules of the Trading Platform and/or Settlement System. Once this date has elapsed without such Settlement taking place, a Settlement Fail will be deemed to have occurred.

**Management of Fails:** Measures adopted by BME CLEARING to resolve Settlement Fails, as set forth in these General Conditions.

**Sales Transaction Management:** Functionality that allows to hold on in the ECC of Sales Transactions when it is anticipated that there is not enough balance of a client's values in the detail register of the third-party general accounts of the Settlement System, and its later Release, in the terms of section 12 of these General Conditions.

**Settlement Instruction:** Securities or cash balances of the Positions which should be settled in the Settlement System, obtained after having performed, where appropriate, the Netting or Aggregation.

**Settlement:** The term "Settlement" will have the same meaning attributed in the Rule Book to the term "Position Settlement".

**Cash Settlement:** Settlement Fails resolution mechanism as set forth in section 14.5 of these General Conditions.

**Cross Border Settlement:** Settlement of positions, according to the operating rules and procedures of Settlement System, which allows the credit and debits done of the Clearing Member in the securities and cash account owned in the linked CSD by the Clearing Members.

**Trading platform:** Regulated market, multilateral trading facility or organized trading facility with which BME CLEARING has reached an agreement to act as CCP pursuant to article 27 of the Rule Book, referred to in the corresponding circular.

**Buy-in:** Settlement Fails resolution mechanism as set forth in section 14.4 of these General Conditions.



**Settlement System:** Any Settlement System with which BME CLEARING has entered into an agreement with, for the sending of settlement instructions to carry out the Settlement of Positions, pursuant to article 37 of the Rule Book, referred to in the corresponding Circular.

**Failed Transaction:** Settlement Fail consisting in the default on the obligation to deliver Securities or cash on the Intended Settlement Date, as a result of not having settled a Settlement Instruction or of the sell Trades being held at the CCP.

**Securities:** Fixed Income Financial Instruments included in section 1 of article 2 of the of the Spanish Securities Markets and Investment Services Act, Law 6/2023, of 17 March (hereinafter "LMVSI") and which are subject to the Trades which form part of the CCP's Fixed Income Segment.

**Seller:** Clearing Member in charge of the sell Positions or, where appropriate, the Settlement Participant responsible, for the account of the Clearing Member, for Settling Sell Position in the Settlement System.

## 4. FINANCIAL INSTRUMENTS AND TRADES

The Fixed Income Financial Instruments listed below admitted to trading on the Trading Platforms mentioned in the corresponding Circular form part of the Fixed Income Segment:

- Spanish Government Debt referenced security listed for trading on AIAF Fixed Income Market.
- European Government Debt admitted to negotiation in the principal Fixed Income European Markets.
- Supranational Debt issued by the European Commission, which shall be considered as European Sovereign Debt for all BME CLEARING regulations, unless otherwise specified.

The aforementioned Financial Instruments may form the scope of the Trades, with respect to which BME CLEARING will act as Central Counterparty in the Fixed Income Segment:

- Double Buy/sell transactions, buy/sell-backs and repos.
- Buy/sell single transactions spot or forward.

The double buy/sell transactions will be split into two Transactions, one Transaction with a Settlement Date (Initial Leg or Initial Transaction) and another Settlement Transaction with another Settlement Date (Final Leg or Final Transaction).

BME CLEARING will establish, via Circular, the Fixed Income Financial Instruments of Spanish debt which, at all times, may form the scope of the Trades forming part of this CCP Segment.

BME CLEARING may register the Market Trades and Off Market Trades on Fixed Income Financial Instruments which have been admitted to trading by BME CLEARING, as envisaged in these General Conditions and in their supplementing provisions.

## 5. FUNCTIONS AND SERVICES OF BME CLEARING

BME CLEARING will perform the following functions with respect to the Fixed Income Segment Trades, in accordance with BME CLEARING's Rule Book, these General Conditions and the related supplementing Circulars.

- Register
- Counterparty
- Clearing

The settlement of Open positions, including Cross-Border Settlement, shall be performed in the Settlement System referred to in the corresponding Circular, with the special features, where appropriate, arising in these General Conditions and their implementing regulations.

## 6. ADDITIONAL CONDITIONS APPLICABLE TO MEMBERS AND CLIENTS

BME CLEARING's Clearing Members, Non-Clearing Members and Ordinary Non-Clearing Members which have requested admission to the company's Fixed Income Segment will be granted access to BME CLEARING's services which relate to Financial Instrument Trades of this Fixed Income Segment, with the scope determined by the class of Member to which they belong.

References made in these General Conditions to Non-Clearing Members and to Ordinary Non-Clearing Members include (unless a specific rule is specifically established and excepting references to Clients) Proprietary Non-Clearing Members and Proprietary Ordinary Non-Clearing Members.

### **Additional conditions applicable to Members**

The following additional requirements will apply to Members, pursuant to articles 3.4 and 18.2.I) of the Rule Book:

1. The Clearing Members must enter into and submit the related Appendix to the agreement with BME CLEARING in order to participate in the CCP's Fixed Income Segment, with the minimum content set out in these General Conditions.

2. Non-Clearing Members and Ordinary Non-Clearing Members must enter into and submit the related Appendix to the agreement with BME CLEARING in order to participate in the CCP's Fixed Income Segment, with the minimum content set out in these General Conditions.
3. Non-Clearing Members and Ordinary Non-Clearing Members must enter into with a General Clearing Member, and submit to BME CLEARING, the related Appendix to the agreement between the General Clearing Member and the Non-Clearing Member, with regards its participation in the CCP's Fixed Income Segment, with the minimum content set out in these General Conditions.

Non-Clearing Members and Ordinary Non-Clearing Members may enter into an agreement and its related Appendix to trade in the Fixed Income Segment with a second General Clearing Member. Such agreement will only be effective in the event that the first General Clearing Member's activity with BME CLEARING is suspended for any reason. Such agreements and Appendices must be forwarded to BME CLEARING.

4. The transactions that Ordinary Non-Clearing Members execute for their own account shall be recorded in an ISA PtoP Client Account, of which the corresponding Clearing Member will be the holder.
5. For the settlement of open positions in BME CLEARING, except for Cross-Border Settlement, Clearing Members shall:
  - A) In the event they do not hold the status of Settlement Participant by themselves in the Settlement System, the Clearing Members must have signed the related contracts with the aforementioned Settlement Participants, for the Settlement of Positions opened at BME CLEARING, with the minimum content set out in these General Conditions.
  - B) The Clearing Members must provide BME CLEARING with the authorisation in which they themselves, as Settlement Participants of the corresponding Settlement System, or the Settlement Participants with which the Members entered into the related agreements to for the Settlement of Positions opened at BME CLEARING, must grant permission to BME CLEARING in order for the CCP to generate the related Settlement Instructions in the name of these Settlement Participants and for IBERCLEAR to make credits and debits in the related Settlement Accounts. The aforementioned authorisation will be in keeping with the model approved by the Settlement System.
6. For the Cross-Border Settlement of Open Positions on BME CLEARING, Clearing Members shall:
  - A) Hold the status of Settlement Participant in the Linked CSD in order to comply with the obligations of the Cross-Border Settlement and to allow the corresponding debit and credits to the securities and cash accounts in the Linked CSD held by them. The Clearing Member shall prove to BME CLEARING that it holds such participant status, in the way that BME CLEARING shall determine.

- B) Authorize BME CLEARING to generate on its behalf (in its capacity as settlement participant of the Linked CSD) the corresponding Settlement Instructions for the Cross-Border Settlement of the open positions registered in its BME CLEARING Accounts and to carry out the corresponding credits and debits of Securities and cash in the Settlement Accounts of the Linked CSD of which the Clearing Member is the holder.
- C) Expressly accept the procedures and actions applicable in case of Incidents in the Settlement, including Buy-ins and Cash Settlement, in accordance with the provisions in this General Conditions and their corresponding Circulars.
- D) Assume the following obligations vis-a-vis BME CLEARING:
  - Comply with the obligations to deliver the Securities and cash arising from the Cross-Border Settlement of the Positions registered in the BME CLEARING Accounts.
  - Carry out, where appropriate, the Management of Sale Transactions for settlement and be liable to BME CLEARING for such Transaction Management.
  - To deliver to BME CLEARING the authorization in its favour so that BME CLEARING generates on behalf of the Clearing Member the corresponding Settlement Instructions, for the Cross-Border Settlement and to carry out the corresponding debits and credits of Securities and cash in the Settlement Accounts of the Linked CSD of which the Clearing Member is the holder. This authorization shall be in accordance with the model approved by BME CLEARING by means of an Instruction.
  - Immediately notify BME CLEARING of the loss or suspension of its status as a Participant in the referred Linked CSD, any breach of its obligations in the relevant Linked CSD with regard to the obligations in respect of Cross-Border Settlement or any other circumstance that may prevent or have an impact on the Cross-Border Settlement.
  - Inform to BME CLEARING, at the earliest opportunity, of any request from the competent supervisory authority related to, or that may have an effect on the Cross-Border Settlement.
  - Immediately notify to BME CLEARING of any regulatory changes applicable to the Linked CSD that may affect the proper fulfilment of its obligations in relation to Cross-Border Settlement.
  - Defend, indemnify, and hold BME CLEARING harmless from and against any claim that it may receive from the Linked CSD arising from the Member's actions within the scope of the Linked CSD.

7. The Clearing Members must make the contribution to the Fixed Income Segment Default Fund determined by BME CLEARING in the related Circular, under article 29.5 of the Rule Book.
8. The Clearing Members must have set up a minimum Individual Fund, which will be established by Circular, in accordance with article 29.3 B of the Rule Book.
9. Clearing Members must fulfil the Contributions for the Service Continuity and Voluntary Payments provided for in paragraph 17 of the present General Conditions in accordance with article 45.8, paragraph 7 of the Rule Book.

### **Solvency requirements of Members**

The solvency requirements of Members to participate in this Fixed Income Segment will be set out in these General Conditions:

- a) Proprietary Non-Clearing Members and Proprietary Ordinary Non-Clearing Members must have minimum equity of forty (€40) million euros.
- b) Individual Clearing Members must have minimum equity of forty (€40) million euros.
- c) General Clearing Members must have minimum equity of one hundred and twenty five (€125) million euros.

BME CLEARING could establish by Circular Margins or alternative requirements to those minimum equity amounts that must provide an equivalent level of solvency, and financial safety. In any case, a minimum requirement of 20% of the above amounts is established for each of the Member type.

### **Minimum content of the contracts to be entered into by Members**

#### **1. Annex to the contract between Clearing Members and BME CLEARING:**

- 1.A) For the settlement of open positions in BME CLEARING, excluding Cross-Border Settlement:
  - In the event they do hold the status of Settlement Participant in the corresponding Settlement System, the obligation to submit to BME CLEARING authorization to the CCP to generate the corresponding Settlement Instructions in their name to settle the open Positions held at BME CLEARING. The aforementioned authorisation will be in keeping with the model approved by the Settlement System.
  - In the event they do not hold the status of Settlement Participant in the corresponding Settlement System for the Settlement of Positions opened at BME CLEARING, the obligation to sign the related contract with the Settlement Participants in the Settlement System for the Settlement of Positions opened at BME CLEARING, with the minimum content set out in these General Conditions.

- In the event they do not hold the status of Settlement Participant, the obligation to submit to BME CLEARING authorization of the Settlement Participant with whom they have entered into the corresponding agreement for the Settlement of Positions opened at BME CLEARING, granted in favour of the CCP to generate the corresponding Settlement Instructions in their name. The aforementioned authorisation will be in keeping with the model approved by the Settlement System.
- The Member's obligation to expressly accept the procedures and measures applicable in case of Settlement Fails, Buy-in and Cash Settlement, in accordance with the present General Conditions and supplementing Circulars.
- The liability of the Clearing Member to BME CLEARING for the application by the Settlement Participants on behalf of the Clearing Members of the Hold/Release Mechanism.

#### 1.B) For Cross-Border Settlements:

- Hold the status of Settlement Participant in the Linked CSD in order to comply with the obligations of the Cross-Border Settlement and to allow the corresponding debits and credits to the securities and cash accounts of the Linked CSD held by them. The Clearing Member shall prove to BME CLEARING that it holds such participant status, in the way that BME CLEARING shall determine.
- Authorize BME CLEARING to generate on its behalf (in its capacity as settlement participant of the Linked CSD) the corresponding Settlement Instructions for the Cross-Border Settlement of the open positions registered in its BME CLEARING Accounts and to carry out the corresponding credits and debits of Securities and cash in the Settlement Accounts of the Linked CSD of which the Clearing Members is the holder.
- Expressly accept the procedures and actions applicable in case of Incidents in the Settlement, including Buy-ins and Cash Settlement, in accordance with the provisions in this General Conditions and their corresponding Circulars.
- Assume the following obligations vis-a-vis BME CLEARING:
  - A) Comply with the obligations to deliver the Securities and cash arising from the Cross-Border Settlement of the Positions registered in the BME CLEARING Accounts.
  - B) Carry out, where appropriate, the Management of Sale Transactions for settlement and be liable to BME CLEARING for such Transaction Management.

- C) To deliver to BME CLEARING the authorization in its favour so that BME CLEARING generates on behalf of the Clearing Member the corresponding Settlement Instructions, for the Cross-Border Settlement and to carry out the corresponding debits and credits of Securities and cash in the Settlement Accounts of the Linked CSD of which the Clearing Member is the holder. This authorization shall be in accordance with the model approved by BME CLEARING by means of an Instruction.
- D) Immediately notify to BME CLEARING of the loss or suspension of its status as a Participant in the referred Linked CSD, any breach of its obligations in the relevant Linked CSD with regard to the obligations in respect of Cross-Border Settlement or any other circumstance that may prevent or have an impact on the Cross-Border Settlement.
- E) Inform to BME CLEARING, as the earliest opportunity, of any request from the competent supervisory authority related to, or that may have an effect on the Cross-Border Settlement.
- F) Immediately notify to BME CLEARING of any regulatory changes applicable to the Linked CSD that may affect the proper fulfilment of its obligations in relation to the Cross-Border Settlement.
- G) Defend, indemnify, and hold BME CLEARING harmless from and against any claim that it may receive from the Linked CSD arising from the Member's actions within the scope of the Linked CSD.

**2. Annex to the contract between Non-Clearing Members and BME CLEARING:**

- The Member's obligation to expressly accept the procedures and measures applicable in case of Settlement Fails, Buy-in and Cash Settlement, in accordance with the present General Conditions and supplementing Circulars.
- The Member's obligation to enter into with a General Clearing Member, and submit to BME CLEARING, the related Appendix to the agreement between the General Clearing Member and the Non-Clearing Member, with regards its participation in the CCP's Fixed Income Segment, with the minimum content set out in these General Conditions.

**3. Annex to the contract between Ordinary Non-Clearing Members and BME CLEARING:**

- The Member's obligation to expressly accept the applicable procedures and actions in case of Settlement Fails, including the Buy-in and the Cash Settlement, in accordance with the provisions of these General Conditions and enabling Circulars.
- The provision that the transactions executed by Ordinary Non-Clearing Members for their own account shall be recorded in a Client ISA PtoP Account, of which its corresponding General Clearing Member shall be the holder.



- The provision that the Ordinary Non-Clearing Member will manage, subject to the authorization of its General Clearing Member, the Transfer and Allocation of the Transactions registered in the Accounts which have been designated by the General Clearing Member.
- The provision that the designation of the Settlement Accounts linked to the Accounts opened at the request of the Ordinary Non-Clearing Members will be made by their General Clearing Member which, if it does not hold such status by itself, will enter into the related contract with the Settlement Participant in the Settlement System for the Settlement of those Positions registered in such Accounts, excluding Cross-Border Settlement.
- The Ordinary Non-Clearing Member must enter into the related Appendix to the contract with its General Clearing Member, and submit it to BME CLEARING, with regard to its participation in the Fixed Income Segment of CCP, with the minimum content envisaged in these General Conditions of the Fixed Income Segment.

**4. Annex to the contract between Non-Clearing Members and General Clearing Members:**

- The obligation of the General Clearing Member to appoint a Settlement Participant in charge of the Settlement of Positions registered in the Accounts of the Non-Clearing Member and to enter into the corresponding agreement with such Settlement Participant to settle these Positions.
- The Non-Clearing Member and General Clearing Member's obligation to expressly accept the procedures and measures applicable in case of Settlement Fails, Buy-in and Cash Settlement, in accordance with the present General Conditions and supplementing Circulars.
- The limitation that the Non-Clearing Members may enter into an agreement and its related Appendix to clear its activity in the Fixed Income Segment with a second General Clearing Member which will only be effective in the event that the first General Clearing Member's activity with BME CLEARING is suspended for any reason. Likewise, the obligation to forward such agreements to BME CLEARING.

**5. Annex to the contract between Ordinary Non-Clearing Members and General Clearing Members:**

- The authorisation granted by the General Clearing Member to the Ordinary Non-Clearing Member to manage the Accounts opened upon requested of the Ordinary Non-Clearing Member, communicating for registration and requesting the registration of the Trades and performing Transfers and Allocations of the Trades registered therein.
- The provision that the Transactions executed by Ordinary Non-Clearing Members for their own account shall be recorded in a Client ISA PtoP Account, of which its corresponding General Clearing Member shall be the holder.



- The obligation of the General Clearing Member to appoint the Settlement Participant entrusted with the Settlement of Positions registered in the Accounts of the Ordinary Non-Clearing Member, entering into the related contract with such Settlement Participant to Settle these Positions.
  - The express acceptance by the Ordinary Non-Clearing Member and the General Clearing Member of the applicable procedures and actions in case of Settlement Fails, including the Buy-in and the Cash Settlement, in accordance with the provisions of these General Conditions and enabling Circulars.
  - The restriction for Ordinary Non-Clearing Members to enter into a contract and its related Appendix to clear its activity in the Fixed Income Segment with a second General Clearing Member. Such contract will only be effective in the event that BME CLEARING's dealings with the first General Clearing Member are suspended for any reason. It shall also include the obligation to submit the mentioned contracts and appendices to BME CLEARING.
6. Additional requirements to be fulfilled by Members or particular conditions to be applied in relation to Cross-Border Settlement may be laid down by Circular.
7. Contract between the Clearing Member and the Settlement Participant in the Settlement System for the settlement of positions, except in the case of Cross-Border Settlement:
- The obligation of the Settlement Participant, vis-à-vis the Clearing Member, to deliver cash and Securities arising from the Settlement of Positions registered in BME CLEARING's Accounts, for which the Clearing Member is liable.
  - The authorization by the Clearing Member to the Settlement Participant to perform, in BME CLEARING on behalf of the Clearing Member, the Hold/Release Mechanism, the Clearing Member being liable to BME CLEARING for that performance.
  - The obligation of the Settlement Participant to deliver to the Clearing Member the authorisation in favour of BME CLEARING in order that the CCP may generate the corresponding Settlement Instructions in the name of such Settlement Participants. The aforementioned authorisation will be in keeping with the model approved by the corresponding Settlement System.
  - The termination of the contract for any cause, except in the event that the Clearing Member holds the status of Settlement Participant, or in the event of the loss of Clearing Member status, will be conditional upon the Clearing Member entering into another contract with another Settlement Participant to settle the Positions registered in the Accounts of BME CLEARING, for which the Clearing Member is liable.
  - The express agreement of both parties, in relation to their involvement in the Position Settlement, to be exclusively subject to the regulations of BME

CLEARING and of the Settlement System and to the applicable Spanish legislation.

### **Specific requirements applicable to the contractual relationship between Non-Clearing Members and their Clients**

In accordance with Article 7.3.p) of the Rule Book, Non-Clearing Members, shall reflect in their respective contractual documents with their Clients with ISA Agency Accounts the provisions of Article 16 of the Regulation, and the Client's intention to act as a Client in the Fixed Income Segment of the CCP.

## **7. ADDITIONAL TYPE OF MEMBER: SPECIAL INDIVIDUAL CLEARING MEMBER**

Aside from the Members' categories stipulated in the article 3 of the Rule Book, an additional type of Member will have access to BME CLEARING's services in relation to the Fixed Income Segment: the Special Individual Clearing Member, within the scope and subject to the terms set forth in these General Conditions, pursuant to articles 4.1 and 18.2.J) of the Rule Book.

Banco de España, Instituto Oficial de Credito and other resident or non-resident entities carrying out similar activities may also be Members, under special conditions.

### **SPECIAL INDIVIDUAL CLEARING MEMBERS**

Special Individual Clearing Members may act at the CCP either on their own account or on behalf of Clients, as well as on behalf of Non-Clearing Members belonging to their group of societies (hereinafter referred to as "Affiliates"). For the purposes of these General Conditions, the definition of group of societies will have the meaning attributed in the article 4 of the LMVSI.

To justify that a Non-Clearing Member is an Affiliate of a Special Individual Clearing Member, this will have to provide certificates of the agreements adopted by the governing bodies with sufficient attributions both by the Special Individual Clearing Member and the Non-Clearing Member or alternatively by their Parent Company, concerning the application to BME CLEARING to become a Special Individual Clearing Member or a Non-Clearing Member of the first, where appropriate, as well as the certification of the stakeholders relationship between the Special Individual Clearing Member and the Non-Clearing Member, fulfilling all the requirements of article 4 of the LMVSI.

The following specific requirements shall apply for the Special Individual Clearing Members:

- The Default Fund Contribution for Special individual Clearing members will be the one determined for the individual Clearing Members in the corresponding Circular.

- Special Individual Clearing Members shall have the same level of minimum own resources required to the Individual Clearing Members.
- Special Individual Clearing Members must notify BME CLEARING of any modification in the structure of the group of societies affecting the fulfilment of the condition set forth in article 4 of the LMVSI, referred to in the first paragraph of this section.

Except for the specific requirements stipulated in this section of the General Conditions, the system applicable to the Special Individual Clearing Members will be the foreseen for the General Clearing Members.

## 8. SPECIFIC REGULATIONS REGARDING THE REGISTRATION OF TRADES

Specific rules which are included in these General Conditions, pursuant to article 18.2.E) of the Rule Book, will be applied as regards Registration, Communication for Registration or Request for Registration and the procedure to accept the Communication or Request in the Trades Register.

Trades on Fixed Income Financial Instruments regulated in these General Conditions may be registered at BME CLEARING so it acts as a Central Counterparty.

BME CLEARING's admission to the Trades Register may be performed via:

- A) Communication for Registration of Market Trades admitted by BME CLEARING.** Market Trades will be deemed to have been posted in the Trades Register once BME CLEARING has accepted the Communication for Registration issued by the Trading Platform under article 20.1A) of the Rule Book and the procedures established in the related Circulars.
- B) Request for OTC Trades Registration of admitted by BME CLEARING.** Off Market Trades will be deemed to have been posted in the Trades Register once BME CLEARING has accepted the Request for Registration issued under article 20.1B) of the Rule Book and the procedures established in the related Circulars.

In accordance with article 20 of the Rule Book, the procedure for the Registration of Trades, the previous verifications to be carried out by BME CLEARING to accept such Registration and the cases in which BME CLEARING may reject Registration will be determined by Circular.

The Transfers and Allocations of Trades between Accounts, as well as the cases, requirements and procedures for the cancellation or modification of Market Trades or Off Market Trades, when such cancellation or modification is notified by the Trading Platforms or Settlement Systems, respectively, will be regulated by Circular.

The Registration timetable will be determined by BME CLEARING in a Circular.

## 9. ACCOUNT STRUCTURE. ADDITIONAL TYPES OF ACCOUNTS TRADES

### ACCOUNT STRUCTURE

Under articles 18.2.E) and articles 21.5 and 22.3 of the Rule Book, the following special regulations regarding the structure of the BME CLEARING's Trades Register for the Fixed Income Segment are set forth.

In the Fixed Income Segment, only Central Register Accounts, referred to in articles 21 and 22 of the Rule Book will be kept.

In the Fixed Income Segment (under article 21.5 of the Rule Book and in relation to section A), only one position Account will be kept in relation to each of the Proprietary Accounts and Client Accounts provided for in Article 21 of the Rule Book.

This same rule (under article 22.3 of the Rule Book, section A.1) shall apply with respect to the indirect Clearing OSA Accounts, provided for in article 22 of the Rule Book, so that there is only one Position Account in respect of each indirect Clearing OSA Account.

### ADDITIONAL TYPES OF ACCOUNTS

Pursuant to articles 18.2.K) and 23.1 of the Rule Book, these General Conditions establish the additional types of Accounts for the Fixed Income Segment, within the classes referred to in the Rule Book, because the Positions are Registered and the Margins are calculated gross or net.

#### **Additional types of Accounts based on the Registration of Positions and the Calculation of Margins.**

In the Fixed Income Segment, Accounts of the Central Register may be of two different types, based on whether Registration of Positions and the corresponding Margins are calculated gross, that is, without netting (Gross Registration Accounts), or net, with netting (Net Registration Accounts).

Proprietary Accounts and Agency or Principal to Principal ISA Accounts will be mandatory Net Registration Accounts.

The OSAs Client's Accounts and Indirect Clearing OSA Client's Accounts may be, at the discretion of their holder, Gross or Net Registration Accounts.

#### **Identification of Settlement Accounts in the Settlement System or Linked CSD**

All the Accounts opened in BME CLEARING's Central Register must have an associated Settlement Account belonging to a Settlement Participant in the corresponding Settlement System and, in the case of Cross-Border Settlement, a Settlement Account in a Linked CSD owned by the Clearing Member.

The Clearing Members must notify BME CLEARING, in the manner determined by the latter, of the Settlement Accounts in the Settlement System or in the Linked CSD to which each of

their Accounts is linked and, where applicable, of the Accounts of their Non-Clearing Members in the Central Register of the CCP.

The Settlement Accounts linked to the Accounts of the Ordinary Non-Clearing Members will be allocated by their General Clearing Member.

## 10. NOVATION OF TRADES. CENTRAL COUNTERPARTY

BME CLEARING shall act as Central Counterparty in:

- A) Market Trades on Financial Instruments admitted to trading on Trading Platforms, which are notified to BME CLEARING for Registration, in accordance with article 28.1 A) of the Rule Book.
- B) Off Market Trades admitted to the Central Counterparty with respect to which their Registration is requested, pursuant to article 28.1.B) of the Rule Book.

BME CLEARING will act as Central Counterparty for such Trades from the date on which they are booked in the Central Register.

As a consequence of its role as Central Counterparty, and for the purposes of novation, BME CLEARING will act as buyer vis-à-vis the Seller and as seller vis-à-vis the Buyer. Accordingly, the original counterparties will cease to have reciprocal rights and obligations, holding them exclusively with BME CLEARING.

## 11. NETTING AND AGGREGATION. GENERATION OF SETTLEMENT INSTRUCTIONS

BME CLEARING will perform the Netting and Aggregation of the buy and sell Trades registered in the CCP's Central Register Accounts, and it will generate the corresponding Settlement Instructions to be sent to the Settlement System, in accordance with that stipulated in these General Conditions and supplementing Circulars.

The Netting and Aggregation mechanisms, the procedures for generating Settlement Instructions, the types of Settlement Instructions and the manner in which it will be permitted to identify the Trades forming part of it, as well as the particularities that may be applicable in relation to Cross-Border Settlement, will be developed in the corresponding Circulars.

### **Netting in the Net Registration Accounts. Generation of Settlement Instructions**

Pursuant to article 34 of the Rule Book, BME CLEARING will perform Netting for the cash payment and Securities delivery obligations resulting from the buy and sell Trades registered in the Net Registration Accounts of the Central Register, in compliance with these General Conditions and corresponding supplementing Circulars.

In each Net Registration Account, the cash payment and Securities delivery obligations resulting from the Trades with the same Transaction Date, Intended Settlement Date and ISIN will be netted.

The initial leg transactions of the double transactions whose registration is made on its Intended Settlement Date, nor the obligations derived from Failed Transactions will not be offset.

The obligations arising from Failed Transactions like Buy-in transactions will not be netted.

Netting shall not be performed for the cash payment obligations and collection rights and for the Securities delivery obligations and reception rights resulting from the Trades registered in different Central Register Accounts of a Member.

BME CLEARING will register the resulting net Position and it will generate a Settlement Instruction for the net balance arising from the netting, closing the original Trades in the Trades Register.

Following netting, the parties will be exclusively liable for compliance with the cash payment and Securities delivery obligations arising.

### **Aggregation in the Gross Registration Accounts. Generation of Settlement Instructions**

Netting shall not be performed for the cash payment obligations and collection rights and for the Securities delivery obligations and reception rights resulting from the Trades registered in Gross Registration Accounts.

BME CLEARING will perform the Aggregation of all buy Trades and, separately, of all sell Trades, registered in the same Account, with the same Trading Date, Intended Settlement Date and ISIN.

The initial leg of the double transactions whose registration is performed on its Settlement Theoretical Date shall not be subject to this aggregation, nor the obligations derived from Failed Transactions. The obligations related to Buy-in transactions Generated by the CCP according to the Fails Management procedure will not be subject to this Aggregation.

BME CLEARING will register the resulting buy and sell Positions and it will generate two Settlement Instructions, one for all the buy obligations and one for all the sell obligations, resulting from the Trades which have these common attributes.

### **Binding nature and irrevocability of transfer orders included in the Settlement Instructions**

The orders to transfer cash and Securities forming part of the Settlement Instructions will be binding and irrevocable, as stipulated in the regulations applicable to the corresponding Settlement System.

The cancellation, modification or substitution of Settlement Instructions performed as a result of the Hold/Release Mechanism or of Fails Management will not affect the binding

nature of the orders to transfer cash and Securities forming part of such Settlement Instructions, in accordance with that stipulated in the regulations on the binding nature of the related Settlement System.

## 12. MANAGEMENT OF SELL TRANSACTIONS. HOLD/RELEASE MECHANISM

The Hold/Release Mechanism will aim to avoid, when there is a lack in Securities in the client Second-Tier Register Account, to deliver securities corresponding to other Clients which form part of the same Third-Party General Account in the Settlement System.

The Hold/Release Mechanism is managed, for the account of CCP's Clearing Members, by Settlement Participants of the Settlement System, which have entered into the related contracts for Settlement of Positions with such Clearing Members. The responsibility vis-à-vis the CCP with regards to the Hold/Release Mechanism corresponds to the Clearing Members.

The Hold/Release Mechanism may be performed with respect to Sell Trades registered in BME CLEARING's Central Register Accounts, when these Accounts have an associated Third-Party General Account in the Settlement System which includes a Client which, in the Second-Tier Register, does not have sufficient Securities to satisfy the Position to be settled.

The Hold/Release Mechanism may be performed in the manner, with the requirements, during the period and within the timetable determined in the corresponding Circular.

The particularities, if any, applicable to the Management of Sale Transactions in relation to Cross-Border Settlement, they shall be regulated by Circular.

### **Holding of sell Trades**

The holding of sell Trades will be performed, in relation to the Gross Registration Accounts and the Net Registration Accounts, prior to the Intended Settlement Date, and may be maintained until the maximum date by which the Buy-in must be executed, as stipulated in the corresponding Circular.

The sell Trades held will not be subject to Aggregation or Netting, where appropriate, with the other Trades registered in the related Account, and they will not form part of the Settlement Instructions generated by the CCP until they are released.

### **Release of held Trades**

As they obtain sufficient Securities in the Third-Party General Accounts to attend to the Position Settlement, the Settlement Participants will release the sell Trades previously held. The CCP will then generate the corresponding Settlement Instructions when trades are released during the ISD or will change the status of the settlement instructions when trades are released after the ISD, as stipulated in the corresponding supplementing Circular.



### **Consideration of Failed Transactions**

The sell Trades still held after the end of the designated Release time limit in the CCP on ISD, will be deemed to be Failed Transactions, and they will be governed by the Fails Management mechanisms, including the passing on of costs and the application of the related penalties.

### **Market Claims due to Corporate Actions involving held sell Trades**

After the end of the designated Release time limit on ISD, BME CLEARING will generate “advance notice” Settlement Instructions for each of the sell Trade held, which will be sent to the Settlement System, for the sole purpose of calculating and applying the corresponding adjustments due to Corporate Actions which, where appropriate, occur while the Trades remain held.

## **13. POSITION SETTLEMENT MADE THROUGH SETTLEMENT SYSTEMS**

The Settlement of Positions registered at BME CLEARING, including Cross-Border Settlement, will be settled in the corresponding Settlement System, in accordance with its operating rules.

The communication mechanisms and procedures between the Central Counterparty and the corresponding Settlement System, the validation processes of the Settlement Instructions by the Settlement System, the cases in which such instructions are rejected and the identification of the settlement optimisation processes will be established and regulated by the corresponding agreement which both parties must enter into.

The Settlement Instructions generated by the CCP are sent to the corresponding Settlement System for full or partial Settlement in the settlement timetable provided by the Settlement System, in accordance with its procedures and its settlement optimisation processes and the procedures related to Cross-Border Settlement applied by the Settlement System.

Since BME CLEARING is a Central Counterparty of the Positions recorded which are subject to Settlement, the Settlement System will make the debits and credits of Securities and cash corresponding to the Settlement Instructions in the Settlement System's Securities and Cash Accounts, held both by the CCP and the Settlement Participant which, in each case, must be responsible for Settlement of Positions on behalf of the BME CLEARING counterparty. In the case of Cross-Border Settlement, the corresponding debits and credits to the Clearing Members will be made in the Settlement Accounts of the Linked CSD owned by the Member.

The Settlement System will notify BME CLEARING, and the latter will notify its Members, of the outcome of the Settlement Instructions generated by the CCP.



Positions registered at the CCP will be closed once the Settlement of Positions is undertaken, and the responsibilities of BME CLEARING and of the Member or Client which was its counterparty will cease with respect to those Positions.

## 14. SETTLEMENT FAILS

The Settlement System will notify BME CLEARING of the Settlement Instructions not settled or partially settled in each settlement cycle.

The CCP will apply the Fails Management mechanisms with respect to the unsettled Trades following the end of the DVP settlement period of the Intended Settlement Date (Failed Transactions), that is, with respect to the unsettled Settlement Instructions and the sell Trades held at the CCP, as regulated in the following sections and in the supplementing Circulars. The particularities related to Cross-Border Settlement regarding settlement fails will be established by Circular.

### 14.1 SETTLEMENT FAILS DUE TO LACK OF CASH

In the event of Incidences in the Settlement of Positions due to a lack of cash on the Intended Settlement Date, the corresponding Settlement System will send the information to BME CLEARING and to the Settlement Participants.

BME CLEARING may substitute the Clearing Member in its cash delivery obligations and, where appropriate, receive the Securities which must have been delivered to it.

If in the same or in the immediately following Session, the Settlement Fail persists due to lack of cash, BME CLEARING may adopt as many measures as required to resolve such Settlement Fail, including the sale of the Securities which had been delivered to it, the compensation of any expense which it may have incurred and the application of the related penalties, in accordance with that established by Circular.

### 14.2 SETTLEMENT FAILS DUE TO LACK OF SECURITIES

In the event of Settlement Fails due to lack of Securities, BME CLEARING will adopt the following measures, regulated in these General Conditions and in the supplementing:

- a) Buy-in.
- b) Cash settlement.

The Buy-in and the Cash Settlement will be executed according to and within the maximum periods envisaged in the applicable regulations.

### 14.3 RECYCLING OF UNSETTLED SETTLEMENT INSTRUCTIONS

The unsettled Settlement Instructions will remain in recycling in the corresponding Settlement System, which will endeavour to settle them during the Sessions following the Intended Settlement Date up to the maximum date on which the Buy-in should be

executed. The held sell Trades at the CCP may be released for Settlement until that same time.

If the Settlement Instructions are settled during the period indicated in the preceding paragraph, with delivery of the related Securities, the Settlement System will notify BME CLEARING, which will update the Trades Register, closing the Positions forming part of those Settlement Instructions. BME CLEARING will cease to calculate its Daily Margins and will interrupt the application of penalties and administrative costs.

If a Settlement Instruction of a sell Position has not been settled by the date on which the Buy-in should be executed, BME CLEARING will withdraw it, and it will apply the Buy-in mechanism regulated in the following section.

The withdrawal of the Settlement Instructions will not affect the binding nature of the orders to transfer cash and Securities arising therefrom, in accordance with that established in the regulations on the binding nature of the Settlement System.

#### **14.4 BUY-IN**

BME CLEARING will perform the Buy-in if the Settlement Instructions for sell Positions or for held sell Trades are not settled by the maximum date for settlement of the Position.

BME CLEARING will perform the Buy-in in accordance with the procedures and requirements established by Circular,

The Securities will be delivered by the supplier selected to BME CLEARING on the Buy-in Settlement Date according to the procedures set in the related Circular, generating BME CLEARING to that effect the Settlement Instructions that in each case correspond.

Regarding the affected Buy instructions and the original Fail instructions BME CLEARING will generate and send to the Settlement System the appropriate settlement instructions established by Circular in order to substitute the original settlement instructions.

The Buy-in shall mean the fulfilment of the obligations of the failed Seller vis-a-vis BME CLEARING and BME CLEARING vis-à-vis the affected Buyer.

The substitution of the original Settlement Instructions will not affect the binding nature of the orders to transfer cash and Securities arising therefrom, in accordance with that established in the regulations on the binding nature of the Settlement System.

#### **14.5 CASH SETTLEMENT**

In the event it was impossible to perform the Buy-in by the date set, due to a lack of available Securities, BME CLEARING will perform, on the date established for this, the Cash Settlement of the Settlement Instructions for the sell and buy Positions in question. The buy Positions involved in the Cash Settlement will be those which are the oldest at the established date, regardless of the age of the sell Positions which are also settled in Cash.

The Cash Settlement will involve a compensation debited from the failed Seller and credited to the Buyer in question.

The calculation of the compensation and the Cash Settlement date will be regulated in the corresponding Circular.

BME CLEARING will generate the Cash Settlement Instructions, which will substitute the Settlement Instructions of the Failed Transactions and will be sent to the corresponding Settlement System.

The Cash Settlement involves the satisfaction in cash of the Securities delivery obligations arising from the Trades forming part of the unsettled Settlement Instructions. Accordingly, the Cash Settlement will represent fulfilment of the obligations of the failed Seller vis-à-vis BME CLEARING and of BME CLEARING vis-à-vis the Buyer in question.

The withdrawal of the failed Settlement Instructions will not affect the binding nature of the orders to transfer cash and Securities arising therefrom, in accordance with that established in the regulations of binding nature of the Settlement System.

#### **14.6 ADMINISTRATIVE COSTS AND PENALTIES**

The costs and expenses incurred by BME CLEARING in the management of Settlement Incidents shall be borne by the Clearing Member responsible for the Position in respect of which the Settlement Incident has occurred, who shall be obliged to pay them.

BME CLEARING will determine by Circular the administrative costs and penalties applicable to Settlement Fails, as well as the mechanism of application thereof.

### **15. HANDLING OF CORPORATE ACTIONS**

The handling of Corporate Actions involving Securities forming part of BME CLEARING's Fixed Income Segment Trades will be in keeping with this section of the General Conditions, which will be supplemented via the related Circular(s) and Instruction(s).

Corporate Actions which differ from those expressly envisaged in these General Conditions or implementing Circulars, will be governed by the rules determined by BME CLEARING via Instructions.

The handling of Corporate Actions regulated in these General Conditions by BME CLEARING which relates to the following scenarios, in the cases in which the Buyer has not received the Securities, which had to be delivered to it on the Record Date nor, therefore, the effects of the Corporate Action, which would have corresponded to it.

In this case, the purpose of the handling of Corporate Actions by BME CLEARING is to ensure that the effect of the Corporate Action reaches the Buyer affected by the failed sell.

The treatment of Corporate Actions, in case of failed transactions, will be handled by the corresponding Settlement System, which will perform the adjustments corresponding in each case to the Settlement Instructions received from the CCP in accordance with the rules established in these General Conditions and the supplementing regulations approved by BME CLEARING.

Treatment of Corporate Actions will also be carried out in the event final leg of the Repo Transactions not failed, in which their Intended Settlement Date is equal or later than the Event Payment Date, BME CLEARING will send the cash of the Corporate Action from the selling positions to the affected buying positions.

The particularities related to Cross-Border Settlement regarding Corporate events will be established by Circular.

### **Mandatory Distribution with no Options**

Mandatory Distribution with no Options (e.g. coupon payment) involves a mandatory distribution of cash or Securities in favour of holders of Securities at the Corporate Action's Record Date.

Pursuant to the Circular, the Settlement System will generate a new Settlement Instruction at the Record Date for each Settlement Instruction pending settlement after its Intended Settlement Date. Accordingly, the Securities or cash distributed will be deducted from the entity to which they had been allocated, and they will be credited to the entity to which they should have been allocated.

BME CLEARING will book in the Trades Register the Position for delivery of Securities or cash corresponding to the Settlement Instructions generated by the Settlement System, and they will be included in the calculation of the Margins required.

In case of open positions in Repo Transactions, not failed, in which their Intended Settlement Date is equal or later than the Event Payment Date, BME CLEARING will generate on the payment date through Target 2 charges for the selling positions affected by the event and credits to the buying positions.

### **Mandatory Transformation Corporate Actions**

Mandatory Transformation Corporate Actions involve the issuer performing any type of procedure on the Securities involved in the Corporate Action different than distribution events (e.g. Final Redemption). In these cases, there is a mandatory transformation of the Securities involved.

The Settlement System will cancel all Instructions which are pending Settlement at the Record Date, and they will be substituted by new Settlement Instructions generated in accordance with the terms of the Mandatory Reorganisation Corporate Action.

## **16. CALCULATION AND METHOD OF POSTING MARGINS**

### **16.1 INITIAL MARGIN**

Initial Margins will be calculated by the portfolio analysis procedure.

The Initial Margin is calculated for each Clearing Member, in respect of the unsettled Positions in each Account, including, for the Clearing Members, the unsettled Positions in the Accounts of their Non-Clearing Members, Ordinary Non-Clearing Members and Clients.

In this regard, unsettled Positions are deemed to be:

- Trades with an Intended Settlement Date which is subsequent to the calculation date;
- Failed Transactions (unsettled and held Settlement Instructions after the Intended Settlement Date);
- Positions for delivery of Cash booked at the CCP as a result of Market claims due to Corporate Actions.

The calculation of Initial Margins will consider:

- the change in value of the unsettled Positions from the Registration date until the trading Session end (Variation Margin);
- the foreseeable change in value of unsettled Positions from the last Margin call in which a certain price was taken into account, until the eventual effective close of the Position by the CCP in the event of Default (Initial Margin). Furthermore, the risk, if any, arising from large Positions will also be taken into account, per the corresponding Circular.

The assessment model to be used, its related adjustments, the simulation events and the parameters required for a full calculation will be specified by Circular.

## **16.2 INDIVIDUAL FUND, EXTRAORDINARY MARGIN AND CONTRIBUTION TO THE DEFAULT FUND**

According to article 29 of the Rule Book, the Individual Fund, Extraordinary Margin and Contribution to the Default Fund which must be posted in each case by the Clearing Members will be determined by Circular.

## **16.3 POSTING OF MARGINS**

The Securities and assets likewise specified by BME CLEARING in a Circular may be posted as Margins.

Cash collateral may be provided in accordance with the provisions of the Circular:

- i) on BME CLEARING accounts on the TARGET2 platform for EUR currency
- ii) in the relevant BME CLEARING Settlement Bank Accounts provided by the Settlement Banks for all currencies accepted by BME CLEARING as Collateral.

## 16.4 SPECIFIC MARGINS RULES

In accordance with Articles 18.2.F) and 31 of the BME CLEARING Rule Book, the Members that operate in the Fixed Income Segment of the CCP shall require Clients of Principal to Principal Client's Accounts and Ordinary Non-Clearing Member, the corresponding margins, with the purpose of covering the own risk of the Position corresponding to each of those Accounts, as well as the risk circumstances that concur in the Client and in the Ordinary Non-Clearing Member.

Members will calculate the margins using portfolio risk assessment criteria similar to those used by BME CLEARING. The margins result may not be lower than those required by BME CLEARING for the same Position.

Clients of Principal to Principal Client's Accounts and Ordinary Non-Clearing Members are obliged to constitute to the Member and in favour of the Member the Guarantees that, in their case, they may require at any time.

## 17. SPECIFIC RULES APPLICABLE IN CASE OF DEFAULT

BME CLEARING may apply, as a Default management measure, the measure of closing out positions and cash settlement (*Tear up in Default*), in those cases in which, after the Default of a Clearing Member, and the corresponding Default management measures have been adopted, it is impossible for BME CLEARING to carry out otherwise the orderly closing of the Positions of the Defaulting Member under market conditions, including the hedging Positions for the default management, provided that the adoption of this measure, due to the volume of the Positions to which it refers, does not compromise the financial soundness of the CCP, and in the opinion of BME CLEARING it is not possible to return to the matching of the Positions registered in its Central Registry.

The procedure for the closing out of Positions and cash settlement (*Tear up in Default*) shall be the same as that applicable to the *Tear up in Recovery*, which shall be as described in the following section 18.1 of these General Conditions, *mutatis mutandis*, without it being necessary for the closing of positions and cash settlement as a Default management measure, the activation of BME CLEARING's Recovery Plan.

## 18. SPECIFIC RULES FOR THE RECOVERY AND RESOLUTION OF BME CLEARING

### 18.1 CLOSE-OUT OF POSITIONS FOR EARLY TERMINATION AND CASH SETTLEMENT (*TEAR UP IN RECOVERY*)

BME CLEARING may adopt, as a recovery measure, the closing of Positions and cash settlement (*Tear-up in recovery*), in the cases in which a Default of a Clearing Member has occurred, and the corresponding Default management measures have been adopted, and it is not otherwise possible to close the Positions of the Defaulting Clearing Member,

including hedging Positions for the default management, if any, when the volume of such Positions is so significant that it could jeopardize the financial stability of the CCP, and in the opinion of BME CLEARING it is not possible to return to the matching of the Positions registered in its Central Register.

This recovery measure will entail that the Positions of the Defaulting Clearing Member that could not otherwise be closed, including hedging Positions for default management, if any (Positions to be closed out), are allocated to both the Non-Defaulting Clearing Members and their respective Non-Defaulting Non-Clearing Members and Clients, whose net open Position is a Position opposite to that of the Defaulting Clearing Member (affected Members and Clients).

BME CLEARING will proceed to distribute the volume of the Positions to be closed out on a pro rata basis among the affected Members and Clients (with a Position opposite to the Position to be closed out) up to the maximum limit of their Position.

The volume of the Positions to be closed out that is allocated to each affected Member and Client shall be distributed among each of their respective Accounts of the Central Registry with an open Position. The allocation per Account will be made regardless of the intended settlement date (FTL) of the securities and according to the registration type, gross or net, of each Position Account.

In the event that it is not possible to allocate the entire volume of the Positions among the affected Members and Clients, due to the indivisibility thereof, the volume of the Positions to be closed shall be allocated in order to the Members or Clients affected who have most recently registered a transaction with the opposite sign to the Position to be closed.

One unit of volume will be assigned to each affected Account of the Central Registry, with the maximum limit of its corresponding Position.

The *Tear-up in recovery* will be made at the price to be determined by BME CLEARING, according to the procedure and criteria to be established by Circular (*Tear-up Price*).

BME CLEARING may describe by Instruction the details of the procedure to be followed in the application of the *Tear-up in recovery*.

Once this recovery measure has been adopted and the close out and cash settlement (*Tear-up in recovery*) has been agreed, the calculation of the Profit and Loss Settlement shall be carried out.

The amount in cash that the affected Members and Clients, as well as the Defaulting Clearing Member, shall pay or receive as a consequence of the *Tear-up in recovery*, shall be the difference between the cash of the affected Position and the cash calculated with the *Tear-up Price*.

The cash valuation of the affected Position of the affected Members and Clients will be the result of applying to the cash of the total Position of each Security, the ratio of the volume



of the Position to be closed over the volume of the total Position of each Security for each affected Account of the Central Registry.

The valuation of the Position to be closed of the Defaulting Member shall be the effective value of such Position to be closed.

BME CLEARING will generate a cash debit or credit Settlement Instruction, as the case may be, for each Security and for each affected Central Registry Account. The settlement date of the Cash Settlement Instruction will be one business day after the date on which the *Tear-up in recovery* is performed.

Following the calculation of the Profit and Loss Settlement, the Final Net Balance of the Defaulting Clearing Member shall be determined in accordance with the provisions of Article 42.3 and Articles 43 and following of the Rule Book. In the event that the Final Net Balance is in debit, BME CLEARING shall proceed to carry out the default management actions indicated in article 45.8.c of the Rule Book.

## **18.2 CONTRIBUTION TO CONTINUITY OF THE SERVICE AND VOLUNTARY PAYMENTS**

According to article 45.8.C, sections 8 and 9, within chapter 9 of BME CLEARING Rule Book, the following rules regarding continuity of the service and voluntary contributions will be applicable to the Fixed Income Segment.

### **Definitions**

The following terms will apply in relation to this section of these General Conditions:

Liquidity Amounts: the gross amounts paid or payable in relation to securities bought for the exclusive purpose of settling delivery against payment of Segment Trades.

Loss Distribution Day: any business day during a Loss Distribution Period on which BME CLEARING, prior to the Margins and Settlements requirement that the CCP must issue in accordance with its regulation, determines that the CCP Loss Not Covered for that day is greater than zero.

Loss Distribution Period: the period as of, but not inclusive, of the day on which Default is claimed in relation to a Clearing Member, until the day on which the first of the following events occurs:

- i) The day on which all Contributions to Continuity of the Service in relation to this Default have been paid in full.
- ii) The day on which two calendar weeks have elapsed since the declaration of Default.

CCP House Loss Not Covered: the amount, calculated on any business day during the Loss Distribution Period, that is the positive difference between the net sum payable, in respect of all the items established in the BME CLEARING regulation, by a Defaulting Clearing Member, calculated by BME CLEARING on that day, less the resources obtained from the



actions established in Sections 45.8.C.1 to 45.8.C.7 of the Regulations, still available on that day.

### **Contribution to Continuity of the Service**

On each Loss Distribution Day, each Non-Defaulting Clearing Member must pay BME CLEARING the “Contribution to Continuity of the Service”, which will be equal to the product of multiplying the CCP Loss Not Covered on that Loss Distribution Day by the Contribution of the Non-Defaulting Clearing Member to the Segment Default Fund, divided by the total contributions by Non-Defaulting Clearing Members to the Segment Default Fund. The Contribution to Continuity of the Service will include the required Liquidity Amounts.

The sum of the Contributions to Continuity of the Service by a Non-Defaulting Clearing Member, excluding contributions corresponding to the Liquidity Amounts, will not exceed 100% of the contribution to the Segment Default Fund by that Clearing Member.

All calculations stipulated in this section in relation to the Default Fund of Non-Defaulting Clearing Members will be made in due consideration of contributions to the Default Fund made the day before the declaration of Default.

If any amounts are recovered from the Defaulting Clearing Member, they will be allocated in accordance with the provisions of Section 45.8.D of the Regulations.

### **Utilisation of Contributions to Continuity of the Service**

With the exception of the Liquidity Amounts used to make deliveries against payment, BME CLEARING will use any other payments it receives as Contributions to Continuity of the Service for the sole purpose of covering any losses incurred by BME CLEARING in relation to the Default, pursuant to the Regulations.

### **No restoring of amounts nor interests**

The amounts paid by the Accounts of the Non-Defaulting Clearing Members as Contributions to Continuity of the Service will be considered final, and BME CLEARING will not be obliged to restore these amounts or pay interest on them.

Despite the above, should the Contributions to Continuity of the Service be sufficient to cover for the CCP Loss Not Covered, the Liquidity Amounts will be considered as contributions to the account of the new Default Fund from those Clearing Members. Should the Contributions to Continuity of the Service however not be sufficient to cover for the CCP Loss Not Covered, the Liquidity Amounts will be returned to the Clearing Members.

### **Voluntary Contributions**

When, following a Default by one or more Clearing Members, BME CLEARING determines that all the resources obtained from the actions established in Sections 45.8.C.1 to 45.8.C.8 of the Regulations have been used, and a net debit balance still remains when these resources have been used, BME CLEARING may publish an Instruction informing all Non-Defaulting Clearing Members that it does not have sufficient resources to clear this net debit balance and that consequently it is likely to apply Section 45.8.C.10 of the Regulations,

which would lead to a cessation of activities by BME CLEARING with respect to the CCP Segment or Segments in which the Default occurred, and asking each Non-Defaulting Clearing Member to make a Voluntary Contribution, pursuant to Section 45.8.C.9 of the Regulations, in a bid to cover the net debit balance.

No Clearing Member will be obliged to make a Voluntary Contribution. Any Voluntary Contributions must be made before the end of the business day following notification of the Instruction concerning the Voluntary Contribution. When the Voluntary Contribution has been made, the Clearing Member will not be entitled to ask for it to be returned. BME CLEARING will be entitled to take the decision to accept or refuse any Voluntary Contribution.

If the Voluntary Contributions are sufficient to cover the net debit balance and there are surpluses, the surpluses from the Voluntary Contributions by each Non-Defaulting Clearing Member will be calculated as contributions towards the new Default Fund by these Clearing Members.

## 19. POSITION LIMITS

BME CLEARING may limit by Circular the volume of the open Position of a Member in a specific Financial Instrument in order to prevent excessive concentration of risks in accordance with the provisions of the Rule Book.

The aforementioned Circular will implement a procedure for a Member to return to within the established limits if they are temporarily exceeded.

## 20. DISSEMINATION OF INFORMATION

BME CLEARING will publish daily and historical information regarding registered volume and open Position.

On a frequent basis, it will distribute information on the volume of Settlement Fails, together with any measures adopted regarding Fails Management.

## 21. OTHER PROVISIONS

The suspension of trading of a Financial Instrument on a Trading Platform will not affect the Trades registered at BME CLEARING, or the obligations arising therefrom for Members or for the CCP.

Insolvency or bankruptcy proceedings of an issuer of a Financial Instrument will not affect the Trades registered at BME CLEARING, or the obligations arising therefrom for Members or for the CCP. In the cases in which it is impossible to comply with the Securities delivery obligations corresponding to the Position Settlement as a result of insolvency or

bankruptcy proceedings of an issuer, or as a result of an administrative or judicial order, BME CLEARING may perform the Cash Settlement of the Positions, without being subject to the Cash Settlement calculation rules stipulated in section 14.6 of these General Conditions.

In the event BME CLEARING has tax payment obligations arising from Fails Management or from the handling of Corporate Actions, BME CLEARING will be entitled to request the Clearing Member who was the counterparty of the Settlement Instrument or Trade subject to tax, to repay all taxes, costs and expenses incurred by BME CLEARING.

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